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COMMISSION OPINION

of 22.11.2017

on the Draft Budgetary Plan of the Netherlands

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GENERAL CONSIDERATIONS

1. Regulation (EU) No 473/2013 sets out provisions for enhanced monitoring of budgetary policies in the euro area for ensuring that national budgets are consistent with the economic policy guidance issued in the context of the Stability and Growth Pact (SGP) and the European Semester for economic policy coordination.
2. Article 6 of Regulation (EU) No 473/2013 requires Member States to submit annually to the Commission and to the Eurogroup a Draft Budgetary Plan (DBP) presenting by 15 October the main aspects of the budgetary situation of the general government and its subsectors for the forthcoming year.

CONSIDERATIONS CONCERNING THE NETHERLANDS

3. On the basis of the Draft Budgetary Plan for 2018 submitted on 12 October 2017 and the addendum to the Draft Budgetary Plan submitted on 03 November 2017 by the Netherlands, the Commission has adopted the following opinion in accordance with Article 7 of Regulation (EU) No 473/2013.
4. The Draft Budgetary Plan was submitted by the caretaker government during the process of government formation. It includes the fiscal measures that were announced in the budget memorandum of the caretaker government on 19 September 2017. A coalition agreement was published on 10 October 2017 and the new government was officially installed on 26 October 2017. The government submitted to the Commission an addendum to the DBP that covers the additional measures of the coalition agreement. The addendum does not include updated tables that meet the requirements under the Code of Conduct. The authorities should submit such updated tables without undue delay. The Commission 2017 autumn forecast includes the measures of the DBP and of the coalition agreement.
5. The Netherlands is subject to the preventive arm of the Pact and should preserve a sound fiscal position which ensures compliance with the medium-term budgetary objective (MTO) of -0.5% of GDP.¹
6. The macroeconomic scenario underlying the Draft Budgetary Plan is plausible. It projects GDP growth to accelerate from 2.2% in 2016 to 3.3% in 2017 and to decelerate to 2.5% in 2018. The growth in 2017 is higher than expected in the Stability Programme; the upward revision is mostly explained by a better-than-expected second quarter in 2017, driven by higher domestic demand and exports. The addendum projects higher growth in 2018 (3.1%) due to the additional stimulus measures of the coalition agreement and a more positive outlook. The Commission 2017 autumn forecast expects a growth path similar to the addendum, due to the fiscal stimulus of the coalition agreement which is projected to support domestic

¹ Since the Netherlands is expected to achieve a debt-to-GDP ratio considerably below the 60% Treaty reference value from 2017 onwards, the debt reduction benchmark is not applicable anymore.

demand. The DBP, the addendum and the Commission forecast expect economic growth to be accompanied by an improving labour market. The main risk to the macroeconomic outlook stems from the uncertainty surrounding the future status of the trade relationship with the United Kingdom as a main trading partner.

7. The Netherlands complies with the requirement of Regulation EU No 473/2013 that the draft budget has to be based on independently endorsed or produced macroeconomic forecasts. The macroeconomic forecasts underlying the Draft Budgetary Plan and its addendum have been produced by Netherlands Bureau for Economic Policy Analysis (Centraal Planbureau, CPB).
8. The DBP expects a budget surplus of 0.6% of GDP in 2017 and 0.8% in 2018, which is similar to the Stability Programme (0.5% in 2017 and 0.8 % in 2018). In the addendum, the government surplus is anticipated to be slightly lower at 0.5% of GDP in 2018 due to expansionary fiscal measures. The structural balance² of the DBP shows a marginal deterioration to 0.2% of GDP in 2017 and 0.1 % in 2018. The addendum would imply a stronger decline, based on a differently calculated output gap.³ The debt-to-GDP ratio is projected to fall from 57.5% in 2017 to 54.4% in 2018, according to the DBP. This debt trajectory lies 1 percentage point below the one projected in the Stability Programme. The main reasons for this improvement are the higher-than-expected GDP growth in 2017 as well as stock-flow adjustments. The addendum projects the debt ratio to decrease further to 57.1% in 2017 and 54% in 2018, based on the assumption of a more positive economic outlook, which offsets the lower budget surplus.

The public finances of the Netherlands have benefitted from interest rate windfalls in recent years. In 2018, the level of interest expenditure is expected to fall by a further 0.2% of GDP compared to 2017, according to both the DBP and the Commission forecast.

9. Among the discretionary measures included in the Draft Budgetary Plan are increased expenditures on healthcare, security and primary education representing 0.2% of GDP in 2018. According to the addendum, the government also plans to raise expenditure on defence by 0.1% of GDP. Revenue in 2018 is expected to decrease by 0.2% of GDP due to a reduction in health insurance premia and a curb of the natural gas production. The coalition agreement includes a tax package for companies that is expected to deliver additional revenue of 0.1% of GDP in 2018. Some of the measures presented in the DBP and the addendum have potentially demand-increasing effects, in line with the Council Recommendation of 11 July 2017⁴ to use fiscal and structural policies to support potential growth and domestic demand.
10. The DBP and addendum projections are broadly in line with the Commission forecast, which expects a headline balance of 0.5% of GDP in 2018. Given the stable economic performance, risks to the DBP budgetary targets and debt projections are limited. The budgetary impact of the measures reported in the DBP appears

² Cyclically-adjusted balance net of one-off and temporary measures, recalculated by the Commission using the commonly agreed methodology.

³ Due to the timing of submission and the different table formats in the DBP and the addendum, the structural balance as presented in the addendum could not be recalculated according to the commonly agreed methodology. The structural balance at face value in the addendum is lower than the Commission forecast, which is due to differences in the output gap.

⁴ OJ C 261, 9.8.2017,

plausible. Even with the inclusion of the additional fiscal measures of the coalition agreement in the Commission forecast, the risks to budgetary targets and debt projections appear limited.

11. With a structural surplus of 0.9% of GDP in 2016 the Netherlands was above its MTO of -0.5%. According to the information provided in the DBP, the Netherlands is expected to remain above the MTO with a structural surplus of 0.2% and 0.1% of GDP in 2017 and 2018, respectively. The Commission forecast projects a structural balance of 0.3% and -0.2% of GDP in 2017 and 2018, respectively, due to fiscal stimulus measures of the coalition agreement.
12. The structural balance has improved between 2011 and 2017, due to lower expenditure and higher revenue. The discretionary fiscal effort was made in almost equal shares on the expenditure and revenue side. Over the period 2011-2017, the share of social payments within total expenditure slightly increased, while the investment share slightly decreased.

The country-specific recommendations call on the Netherlands to use fiscal and structural policies to support potential growth and domestic demand, including investment in research and development. The DBP and the addendum include several fiscal measures that are projected to support domestic demand and potential growth from 2018 onwards, especially expenditure on security and on teachers' salaries. The addendum foresees also smaller investments in the area of research and development.

13. Overall, the Commission is of the opinion that the Draft Budgetary Plan of the Netherlands, which is currently under the preventive arm, is compliant with the provisions of the Stability and Growth Pact. The Commission invites the authorities to implement the 2018 budget.

The Commission is also of the opinion that the Netherlands has made some progress with regard to the structural part of the fiscal recommendations contained in the Council Recommendation of 11 July 2017 in the context of the 2017 European Semester and invites the authorities to make further progress. A comprehensive assessment of progress made with the implementation of the country-specific recommendations will be made in the 2018 Country Report and in the context of the country-specific recommendations to be proposed by the Commission in May 2018.

Done at Brussels, 22.11.2017

For the Commission
Pierre MOSCOVICI
Member of the Commission